



## **Lenders for Community Development Proposal to Provide Homeownership IDAs in Partnership with the City of Sunnyvale**

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### **Executive Summary**

This proposal outlines a partnership between Lenders for Community Development and the City of Sunnyvale that will provide 25 or more Individual Development Accounts to Sunnyvale residents currently on the waiting list for BMR units, who would be able to use their IDA savings to buy BMR homes. Sunnyvale Investors will be eligible for a 2:1 match on each dollar they save, up to a total (savings plus match) of \$15,000. This means that these Investors will be entitled to a maximum match of \$10,000, if they accumulate the maximum in personal savings (\$5,000). Investor withdrawals will be monitored by LCD case managers and will be limited to the down-payment and closing costs on a home purchase.

Offering IDAs to families who qualify to purchase below market-rate homes in Sunnyvale will give these first-time homebuyers a head start on making a high-return investment. For each participating family, the long-term outcome of homeownership will be increased financial stability.

### **Full Proposal**

#### **Organization Description**

Lenders for Community Development (LCD) is an innovative, nationally recognized community development financial institution that serves the poorest communities of Silicon Valley. LCD helps the families and individuals in this region achieve self-sufficiency by providing a comprehensive set of financial tools and training designed to meet the specific needs of low-income communities. We start by financing the housing, jobs, and community services that enable low-income people to begin to move out of poverty. Our programs then help our customers acquire the assets critical to achieving financial stability - a home, a small business, higher education, or retirement savings - making it possible for them to climb the economic ladder in one of the most expensive regions in the country.

#### **History**

LCD was incorporated in 1993 as a multi-bank community development corporation, and the organization made its first loans in early 1995. The launch of LCD followed a two and a half-year process of evaluating community credit needs; organizing local bankers, government officials and community representatives through a series of planning and implementation committees; obtaining regulatory approvals to allow investments by regulated financial institutions; and hammering out legal agreements among investors. This process was initiated and facilitated by Community Foundation Silicon Valley, which provided office space and

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institutional support to LCD in its early years. LCD was certified as a Community Development Financial Institution by the US Department of Treasury in 1996, in recognition of the benefit and accountability it provided to low-income individuals and communities. Having proved its expertise as a financial intermediary channeling investment into low-income communities, LCD converted to a 501(c)(3) non-profit in 2000. The principal legacy of LCD's for-profit roots is its focused, results-oriented culture.

In its first five years of operations, LCD focused its efforts on two program areas: microenterprise loans and loans to developers of affordable housing and community facilities. In 1999, LCD launched the Individual Development Account (IDA) program to extend its reach into Silicon Valley's poorest communities. LCD's IDA Program is an innovative wealth creation strategy that provides matched savings accounts and financial education to help low-income families accumulate a few thousand dollars for high return investments, like a home. To date, 1,326 low-income households have enrolled in the IDA program; 488 IDA Investors have identified homeownership as a savings goal, and LCD has already helped 97 people to purchase homes with their IDA savings.

Since becoming a non-profit organization, LCD has developed new partnerships aimed at broadening its impact in the communities it serves. In the area of affordable housing, LCD worked with the Sobrato Foundation to create the Sobrato Affordable Housing Fund. This \$10 million Fund focuses on providing successful non-profit developers with working capital for predevelopment expenses and equity for land acquisition in the form of streamlined, 0% interest loans. LCD also played a lead role in establishing the Housing Trust of Santa Clara County, which makes investments in affordable multifamily housing and housing for the homeless and special needs. LCD's small business micro-loan program provides micro-loans, IDAs and supportive services to microentrepreneurs, including a comprehensive technical assistance program targeting start-up/early stage businesses with high community development impact. LCD was recently chosen as one of seven recipients of the Skoll Foundation Award for Innovation in Silicon Valley.

### Accomplishments

With an established track record of balancing risk and impact, LCD has successfully directed over \$41 million in community investment into economically challenged neighborhoods and improved the lives of 4,500 households. (This figure does not include people served by the 15 non-profit community facilities LCD has financed, like youth centers and social service centers.) LCD brings a comprehensive approach to poverty alleviation in Silicon Valley, providing integrated financial tools and training through its IDA, Small Business Micro-Loan, and Affordable Housing and Community Facilities Loan Programs. In addition to providing individuals with the opportunity to build personal assets through matched savings and loans to develop small businesses, LCD supports the expansion of infrastructure and services that enable low-income people to stabilize their lives while they pursue asset-building opportunities. This unique combination of products and services enables LCD to approach the problem of poverty from multiple angles. LCD's flexible, creative, hands-on approach to working with its customers marks us as a leading community development financial institution.

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All of LCD's established programs have impressive track records. Through its Small Business Micro-Loan Program, LCD has made 211 small business micro-loans, totaling over \$4.5 million in financing to entrepreneurs in Santa Clara and San Mateo Counties. Of these loans, 74% have gone to minority-owned businesses, 57% to women-owned businesses, and 81% to businesses owned by low- or moderate-income (LMI) people. Additionally, since 1995 LCD has originated over \$37 million in affordable housing and community facilities loans, financing 2,902 units of affordable housing and 15 new community facilities.

LCD's IDA Program is the largest and among the most effective IDA programs in the United States. LCD launched the IDA Program in 1999 in collaboration with the Peninsula Community Foundation's Center for Venture Philanthropy and a network of local non-profit organizations ("Community Partners"), including Catholic Charities of San Jose, the Mayfair Improvement Initiative, and the County of San Mateo. To date, 1,350 clients of LCD's Community Partners have enrolled in the program. 101 have already purchased homes; 254 have invested in higher education, 58 people have invested savings in a small business, and 73 people have started retirement accounts.

Together, IDA Investors have accumulated \$4.3 million towards their asset goals (their savings plus 2:1 match). The median family income of IDA Investors is only \$24,000 a year, yet 86% of Investors have established a regular pattern of saving (meaning that the Investor consistently makes monthly deposits). LCD's IDA program is unique in its cultural diversity, racial balance, and significant refugee population.

#### Racial Demographics

Latino	477	36%
Asian-Pacific Islander	248	19%
African American	136	10%
White	192	14%
Native American	11	1%
Other/Decline to state	262	20%
<b>Total</b>	<b>1326</b>	<b>100%</b>

Among the population served by the IDA program, 182 clients are refugees from international conflicts, including Bosnia and the Sudan. 70% of IDA Investors are women, and 72% of all IDA Investors are saving on behalf of a family.

#### Homeownership IDAs in Sunnyvale

Lenders for Community Development is prepared, in partnership with the City of Sunnyvale, to provide 25 or more Individual Development Accounts to Sunnyvale residents currently on the waiting list for BMR units, who would be able to use their IDA savings to buy BMR homes. To accommodate the needs of the target population identified by the City of Sunnyvale, LCD will make some changes to the program policies applied to these Sunnyvale homeownership Investors.

New Sunnyvale clients will enroll in the IDA program to save for a home purchase. Investors will be recruited from among people who are on the waiting list to purchase below market-rate

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homes in Sunnyvale and whose earnings are at or below 80% of the Median Family Income (as defined by the City of Sunnyvale). Sunnyvale Investors will be eligible for a 2:1 match on each dollar they save, up to a total (savings plus match) of \$15,000. This means that these Investors will be entitled to a maximum match of \$10,000, if they accumulate the maximum in personal savings (\$5,000). Investors can apply the combined savings and match towards their home purchase. LCD case-managers will monitor Investor savings and available matching funds, and will evaluate each withdrawal request to ensure that it complies with program guidelines. For Sunnyvale homeownership clients, Investor withdrawals will be limited to the down-payment and closing costs on a home purchase.

The participants will make a monthly savings deposit in an account held at Citibank—LCD's banking partner on the IDA program. Participants will be required to save every month in order to remain in the program, and the maximum amount that will be eligible for matching funds each month will be \$278. To receive the maximum in match money, Investors must save consistently for 18 months. If, after 18 months of saving in the program, they have reached the savings limit, they can withdraw their savings and the full match. Investors will have a maximum of thirty-six months to reach their savings goal and use the match money to purchase a home.

A critical element of the IDA program is financial literacy training. In addition to developing a monthly pattern of saving, Investors will be required to complete a financial literacy course in which they will create a savings plan and learn to manage their earned income; to set a budget and stick to it; to set financial goals; and to manage credit wisely. Investors must also attend trainings specific to their goal of purchasing a home, where they will learn about what is involved in buying property, obtaining a mortgage, and closing on a home. Investors will be required to complete these courses in order to access the matching money for their asset purchase. LCD coordinates the financial literacy courses for all clients enrolled by our community partners, and this will be true for Sunnyvale homeownership Investors as well.

As a condition of enrollment, Sunnyvale IDA Investors will be required to demonstrate the ability to purchase a home within three years. Clients recruited from the City of Sunnyvale's waiting list for below market-rate homes will be screened by Neighborhood Housing Services (NHS) to make sure they are likely to be able to buy a home within thirty-six months. The pre-screening process will ensure a pool of Investors who are focused on reaching their savings goal and obtaining their asset—a home.

For Sunnyvale homeownership Investors, LCD will serve as the administrative hub of the program. After NHS screens each client, LCD will conduct a one-on-one interview and a group orientation, conduct personal finance training, and provide ongoing case management. NHS will provide the asset-specific training (i.e., homeownership training). Upon completion of the financial literacy course, new Investors open an insured savings account with Citibank (the Citibank branch LCD works with is located in Sunnyvale on Mary Avenue) and complete a Savings Agreement, in this case designating a home as their asset goal. LCD's staff, acting as case-managers, will send each Investor a monthly statement that goes along with the bank statement sent by Citibank, showing matching money earned. As part of this process, case-managers track Investor savings patterns and follow up with clients who are having trouble saving regularly. Clients who do not save reliably cannot remain in the program and they are not

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able to access the matching funds. (The money they save on their own, of course, is their money to use as they choose.) As stated above, LCD case-managers will monitor Investor savings and available matching funds, and they evaluate each withdrawal request to ensure that it complies with program guidelines. In this partnership with the City of Sunnyvale, Investor withdrawals will be limited to the down-payment and closing costs on a home purchase.

#### Program Costs

The cost per IDA Investor under this partnership with the City of Sunnyvale will be \$11,500. The direct cost in matching money is \$10,000 per Investor. LCD will charge \$1,500 per IDA, to cover the costs of case-management, financial literacy training, interfacing with Citibank, preparing and providing bank statements, and assisting each Investor with account withdrawals. The City will provide the matching funds to LCD on the following schedule: An initial payment of six months of estimated match funds followed by quarterly payments of match funds in proportion to the estimated savings rate of participants. If not all of the matching funds are accessed by Investors, LCD will return the balance to the City at the end of the program.

#### Program Impact

IDAs are an innovative anti-poverty strategy based on an old concept: that families, communities, and nations progress economically only through saving and investing. Based upon the knowledge that people rarely, if ever, spend their way out of poverty, IDAs help low-income families accumulate a few thousand dollars for high return investments, such as buying a home.

The immediate impact of providing homeownership IDAs to Sunnyvale residents will be that at least 25 low-income Sunnyvale householders will be able to become new homeowners in one of the most expensive regions in the country. Offering IDAs to families who qualify to purchase below market-rate homes in Sunnyvale will give these first-time homebuyers a head start on making a high-return investment. For each participating family, the long-term outcome of homeownership will be increased financial stability.

The IDA Program also has an impact on the long-term financial health of Investors who successfully complete the program. National research has shown that, as they begin to save and accumulate a “nest egg,” IDA holders overcome barriers to self-sufficiency. Instead of living pay-check to pay-check, IDA savings help families from low-income backgrounds to save money and build assets. Research on the subject indicates that developing a consistent savings habit promotes financial stability and educational attainment; decreases economic strain on households; decreases the risk of intergenerational poverty transmission; and reduces the length of unemployment.